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BEFORE THE ARIZONA CORPORATION COMMISSION NOV 17 P 2:42

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CARL J. KUNASEK

Chairman

JIM IRVIN

Commissioner

WILLIAM A. MUNDELL

Commissioner

AZ CORP COMMISSION
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IN THE MATTER OF THE APPLICATION OF GTE
COMMUNICATIONS CORPORATION FOR A
COMPETITIVE CERTIFICATE OF PUBLIC
CONVENIENCE AND NECESSITY AUTHORIZING
INTER-EXCHANGE FACILITIES-BASED SERVICES
AND THE CONSTRUCTION AND OPERATION OF
A COMPETITIVE INTER-EXCHANGE LONG
DISTANCE TELECOMMUNICATIONS SYSTEM
THROUGHOUT THE STATE OF ARIZONA

DOCKET NO. T-03258A-00-0326

IN THE MATTER OF THE APPLICATION OF GTE
COMMUNICATIONS CORPORATION FOR
AUTHORITY TO OPERATE AS A PROVIDER
OF ALTERNATIVE OPERATOR SERVICES
STATEWIDE IN ARIZONA

DOCKET NO. T-03258A-97-0568

IN THE MATTER OF THE APPLICATION OF GTE
COMMUNICATIONS CORPORATION FOR A
COMPETITIVE CERTIFICATE OF PUBLIC
CONVENIENCE AND NECESSITY AUTHORIZING
LOCAL EXCHANGE SERVICES VIA RESALE AND
THE CONSTRUCTION AND OPERATION OF A
COMPETITIVE LOCAL EXCHANGE
TELECOMMUNICATIONS SYSTEM THROUGHOUT
THE CURRENT LOCAL EXCHANGE OPERATING
AREAS IN THE STATE OF ARIZONA OF US WEST
COMMUNICATIONS, INC.; AND CITIZENS
UTILITIES COMPANY AND AFFILIATES

DOCKET NO. T-03258A-97-0545

Snell & Wilmer

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IN THE MATTER OF THE APPLICATION OF GTE)
COMMUNICATIONS CORPORATION FOR A)
CERTIFICATE OF PUBLIC CONVENIENCE AND)
NECESSITY TO PROVIDE COMPETITIVE)
INTRASTATE TELECOMMUNICATIONS SERVICES)
AS A RESELLER)

BUCKET NO. T-03258A-96-0492

COMPLIANCE FILING

Verizon Select Services Inc., fka GTE Communications Corporation ("Verizon Select"), hereby submits to the Arizona Corporation Commission ("Commission") its responses to the questions posed by the Commission's Procedural Order of September 27, 2000, as amended:

Q. 1. Provide a proposed fair value rate base ("FVRB"), this may be the same as original cost rate base. The FVRB shall include the value of all plant and equipment currently held by Verizon Select and intended to be used to provide telecommunications services to Arizona customers. In doing so, Verizon Select may use any reasonable means of asset allocation, direct assignment or combination thereof.

A. 1. Verizon Select does not have any tangible assets of the kind identified in the question to include in a calculation of FVRB, on either a direct assignment or allocated basis. Verizon Select's current business plan is to initially provide telecommunications services to Arizona customers using a non-facilities-based resale model. When our Arizona customer base grows to the point where it could economically support a facilities-based infrastructure, Verizon Select will make the necessary capital investment in plant and equipment but has made no specific projections as to the level of such possible future investment. Verizon filed an application for authority to provide facilities-based service in anticipation of this future growth and in recognition of the extraordinarily extended CC&N process in Arizona.¹

Q. 2. Provide a description of all plant and equipment currently held by Verizon Select and intended to be used to provide telecommunications services to Arizona customers,

¹ Because Verizon Select does not anticipate providing facilities-based services during the first phase of its business plan, it might be appropriate to postpone the establishment of initial maximum rates and charges for such facilities-based services. This bifurcated procedure would also permit Verizon Select to provide the Commission with more meaningful FVRB information, if such is still required, at that future time.

including their cost and location.

A. 2. As mentioned above, Verizon Select will initially be providing service in Arizona solely as a reseller, and does not have any capital investment in plant or equipment to service Arizona customers. Verizon Select does have two Arizona administrative offices in the locations indicated below. These offices are not owned by Verizon Select and are currently under lease. All related office equipment (e.g., PCs, fax machines, desks, etc.) is either under lease or has been previously expensed.

Tempe Arizona Office
1236 W. Southern Ave.
Tempe, AZ. 85281
10,929 sq. ft.

West Grant Center
1955 W. Grant Road
Tucson, AZ. 85745
569 sq. ft.

Q. 3. Provide information demonstrating how the value of its plant and equipment (both current and projected) is related to its total service long-run incremental costs (such demonstration must include the amount of depreciation expense and capital carrying costs related to the FVRB which has been incorporated into the long-run incremental costs).

A. 3. Again, as discussed in connection with the prior two questions, Verizon Select currently has no capital investment or specific projections of capital investment and thus no capital carrying costs or depreciation expense to include in a calculation of TSLRIC.

Q. 4. Demonstrate, for all maximum rates and charges of Verizon Select which are higher than those of the incumbent local exchange carrier ("ILEC") for the same regulated services, that such rates and charges are not unreasonable and constitute a fair rate of return on FVRB.

A. 4. Verizon Select will initially be providing resale services in areas where an incumbent local exchange carrier, along with various facilities-based competitive local exchange carriers (collectively referred to as "LECs") and facilities-based interexchange carriers ("IXCs"), are providing service. Indeed, it will be the services of these LECs and IXCs that Verizon Select will be reselling. Therefore, Verizon Select will have to compete with those providers in order to

1 obtain subscribers to its services and will not be able to exert market power. Just as obviously,
2 Verizon Select cannot price its resold services higher than an incumbent LEC or IXC for the same
3 regulated services. Thus, the competitive process will result in rates that are at or below those
4 already found by the Commission to be just and reasonable for such incumbent LECs and IXCs.
5 Finally, and although Verizon hopes to produce some positive margins above its operating costs
6 and the wholesale cost of the services it intends to resell, as mentioned above, Verizon Select
7 presently has no FVRB upon which to earn a return and is therefore unable to relate those
8 margins, if any, to a return on FVRB, and will be relying on the marketplace and the
9 Commission's establishment of the underlying wholesale rates to make that determination.

10 RESPECTFULLY SUBMITTED this 17th day of November, 2000.

11 SNELL & WILMER L.L.P.

12 
13 Thomas L. Mumaw

14 Attorneys for Verizon Select Services Inc.
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19 with:

20 Docket Control
21 Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

22 COPIES mailed/hand delivered this
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